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C O N F I D E N T I A L HARARE 000872

SIPDIS

AF/S FOR BNEULING
NSC FOR SENIOR AFRICA DIRECTOR C. COURVILLE
USDOC FOR ROBERT TELCHIN
TREASURY FOR OREN WYCHE-SHAW
PASS USTR FOR FLORIZELLE LISER
STATE PASS USAID FOR MARJORIE COPSON
USDOL FOR ROBERT YOUNG

E.O. 12958: DECL: 12/31/2009
TAGS: EINV ECON PGOV ZI
SUBJECT: OLIVINE STRUGGLING TO REMAIN OPERATIONAL

Classified By: Charge d'affaires Eric T. Schultz a.i. for reason 1.4 d

Summary

¶1. (C) Olivine Managing Director Ian MacKenzie told PolOff on June 21 that his company was on the verge of shutting down large parts of its operations due to lack of foreign exchange and the country,s small soya and cotton crop. As the single largest provider of bakers, fats, a shut down could also mean bread, margarine, and other shortages soon. With the waste from oil extraction traditionally sold to pig and cow farmers as stock feed, a shut down could also mean a decline in feed supplies to already hard-hit farmers. End Summary

Shut Down Looming

¶2. (C) MacKenzie said his company would run out of solvents for soya bean oil extraction on June 22 while the cotton oil extraction facility had been shut down for over a month. Soya bean oil, MacKenzie explained, was used for bakers, fats, margarine, and cooking oil. Although Olivine recently purchased a month,s worth of solvent with Reserve Bank of Zimbabwe (RBZ)-supplied foreign exchange, MacKenzie lamented that the shipment would not arrive for two weeks.

¶3. (C) In addition to lack of foreign exchange, MacKenzie said that low crop yields inhibited oil and other product production. For example, this year,s national soya crop totaled approximately 55,000 metric tons while Olivine alone used to process 90,000 metric tons. The cotton crop fared better at 144,000 metric tons, but was still half of the 300,000 metric tons of previous years.

Consequences to Economy

¶4. (C) According to MacKenzie, the temporary shut down of his facility would result in shortages of breads, margarines, cooking oil, and other products as Olivine provided local businesses with 80 percent of their bakers, fats. In addition, MacKenzie continued, pig and cow farmers relied in part upon oil extraction waste for animal stock feed. Just this month, Olivine retrenched 232 contractors and 20 permanent staff. MacKenzie noted that a two-week shut down may not be noticed in the stores, but Olivine faced hard decisions about a permanent shut down, with severe consequences for the broader economy, absent greater access to foreign exchange. MacKenzie confided that several South African inputs providers refused to extend further credit without at least partial payments for prior deliveries, payments Olivine could not make without foreign exchange.

Comment

¶5. (C) Yet another potential casualty of failed GOZ economic policies, Olivine is one of many companies here struggling to continue operations. With companies in the formal sector contemplating shutdowns and the GOZ going after the informal economy, Zimbabwe faces a familiar question: how much longer can this go on before a total economic collapse occurs?
SCHULTZ